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94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

ATTACHMENT 4.19-D (NF)

Page 100

---

and buildings, attached fixtures, and land improvements is allowable debt.

A hospital-attached nursing facility that has debts that are not directly identifiable to the hospital or the nursing facility shall allocate the portion of allowable debt computed according to Section 16.050, and allowable interest expense computed according to Section 16.070 assigned to land and buildings, attached fixtures, and land improvements using the Medicare stepdown method described in Section 16.010.

C. For debts incurred after September 30, 1984, the nursing facility shall directly identify the proceeds of the debt associated with specific land and buildings, attached fixtures, and land improvements, and keep records that separate such debt proceeds from all other debt. Only the debt identified with specific land and buildings, attached fixtures, and land improvements shall be allowed.

D. For reporting years ending on or after September 30, 1984, the total amount of allowable debt shall be the sum of all allowable debts at the beginning of the reporting year plus all allowable debts at the end of the reporting year divided by two. Nursing facilities which have a debt with a zero balance at the beginning or end of the reporting year must use a monthly average for the reporting year.

E. Except as provided in item F, debt incurred as a result of loans between related organizations must not be allowed.

F. Debt meeting the conditions in Section 16.132 is allowable.

**SECTION 16.060 Limitations on interest rates.** The Department shall limit interest rates according to items A to C.

A. Except as provided in item B, the effective interest rate of each allowable debt, including points, financing charges, and amortization bond premiums or discounts, entered into after September 30, 1984, is limited to the lesser of:

- (1) the effective interest rate on the debt; or
- (2) 16 percent.

B. Variable or adjustable rates for allowable debt are allowed subject to item A. For each allowable debt with a variable or adjustable rate, the effective interest rate must be computed by dividing the interest expense for the reporting year by the average allowable debt computed under Section 16.050, item D.

STATE: MINNESOTA

ATTACHMENT 4.19-D (NF)

Effective: October 1, 2002

Page 101

TN: 02-26

Approved: MAR 7 2003

Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

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C. For rate years beginning on July 1, 1985, and for rate years beginning after June 30, 1987, the effective interest rate for debts incurred before October 1, 1984, is allowed subject to item A.

**SECTION 16.070 Allowable interest expense.** The Department shall allow or disallow interest expense including points, finance charges, and amortization bond premiums or discounts under items A to G.

A. Interest expense is allowed only on the debt which is allowed under Section 16.050 and within the interest rate limits in Section 16.060.

B. A nonprofit nursing facility shall use its restricted funds to purchase or replace capital assets to the extent of the cost of those capital assets before it borrows funds for the purchase or replacement of those capital assets. For purposes of this item and Section 4.020, a restricted fund is a fund for which use is restricted to the purchase or replacement of capital assets by the donor or by the nonprofit nursing facility's board.

C. Construction period interest expense must be capitalized as a part of the cost of the building. The period of construction extends to the earlier of either the first day a resident is admitted to the nursing facility, or the date the nursing facility is certified to receive medical assistance recipients.

D. Interest expense for allowable debts entered into after May 22, 1983, is allowed for the portion of the debt which together with all outstanding allowable debt does not exceed 100 percent of the most recent allowable appraised value as determined in Sections 16.010 to 16.040. For a rate year beginning on or after July 1, 1989, the interest expense that results from a refinancing of a nursing facility's demand call loan, when the loan that must be refinanced was incurred before May 22, 1983, is an allowable interest expense.

E. Increases in interest expense after May 22, 1983, which are the result of changes in ownership or reorganization of provider entities, are not allowable.

F. Except as provided in item G, increases in total interest expense which are the result of refinancing of debt after May 22, 1983, are not allowed. The total interest expense must be computed as the sum of the annual interest expense over the remaining term of the debt refinanced.

G. Increases in total interest expense which result from refinancing a balloon payment on allowable debt after May 22, 1983, shall be allowed according to subitems (1) to (3):

STATE: MINNESOTA

ATTACHMENT 4.19-D (NF)

Effective: October 1, 2002

Page 102

TN: 02-26

Approved: MAR 7 2003

Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

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(1) The interest rate on the refinanced debt shall be limited under Section 16.060, item A.

(2) The refinanced debt shall not exceed the balloon payment.

(3) The term of the refinanced debt must not exceed the term of the original debt computed as though the balloon payment did not exist.

**SECTION 16.080 Building capital allowance for owner-operated nursing facilities or nursing facilities with capital leases.** Except as provided in Section 16.140, for the rate years beginning after June 30, 1985, the building capital allowance for owner-operated nursing facilities or nursing facilities with capital leases must be computed as follows:

A. The rental factor is 5.33 percent. For the rate year beginning July 1, 1988 the rental factor will be increased by 6.2% rounded to the nearest 100th percent or 5.66 percent for the purpose of reimbursing nursing facilities for soft costs and entrepreneurial profits not included in the cost valuation services used by the state's contracted appraisers. For rate years beginning on or after July 1, 1989, the rental factor is the amount determined for the rate year beginning July 1, 1988.

B. The difference between the nursing facility's allowable appraised value determined under Sections 16.010 to 16.040 and the allowable debt determined in Section 16.050 is multiplied by the rental factor.

C. The amount determined in item B must be added to the total allowable interest expense determined under Sections 16.060 and 16.070.

D. Except as in item E, the amount determined in item C must be divided by 95 percent of capacity days.

E. If the average length of stay in the skilled level of care within a nursing facility is 180 days or less, the nursing facility shall divide the amount in item C by the greater of resident days or 80 percent of capacity days but in no event shall the divisor exceed 95 percent of capacity days.

For purposes of this item, the nursing facility shall compute its average length of stay for the skilled level of care by dividing the nursing facility's skilled resident days for the reporting year by the nursing facility's total skilled level of care discharges for that reporting year.

STATE: MINNESOTA

Effective: October 1, 2002

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Approved: MAR 7 2003

Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

---

ATTACHMENT 4.19-D (NF)

Page 103

F. If an operating lease provides that the lessee's rent is adjusted to recognize improvements made by the lessor and related debt, the costs for capital improvements and related debt are allowed in the computation of the lessee's building capital allowance, provided that reimbursement for these costs under an operating lease do not exceed the rate otherwise paid.

**SECTION 16.090 Building capital allowance for nursing facilities with operating leases.** Except as provided in Section 16.140, for rate years beginning after June 30, 1985, the building capital allowance for nursing facilities with operating lease costs incurred for buildings must be paid as determined by items A to C.

A. The allowable appraised value of the nursing facility must be established according to Sections 16.010 to 16.040.

B. The allowable interest expense determined under Sections 16.060 and 16.070 and the allowable debt determined under Section 16.050 for the leased nursing facility must be considered zero.

C. Except as in item D, the building capital allowance must be the lesser of the operating lease expense divided by 95 percent of capacity days, or the allowable appraised value multiplied by the rental factor and then divided by 95 percent of capacity days.

D. A nursing facility with an average length of stay of 180 days or less shall use the divisor determined in Section 16.080, item E, instead of 95 percent of capacity days.

**SECTION 16.100 Equipment allowance.** For rate years beginning after June 30, 1985, the equipment allowance must be computed according to items A to E.

A. The historical cost of depreciable equipment for nursing facilities which do not have costs for operating leases for depreciable equipment in excess of \$10,000 during the reporting year ending September 30, 1984, is determined under subitems (1) and (2):

(1) The total historical cost of depreciable equipment reported on the nursing facility's audited financial statement for the reporting year ending September 30, 1984, must be multiplied by 70 percent. The product is the historical cost of depreciable equipment.

(2) The nursing facility may submit an analysis which classifies the historical cost of each item of depreciable equipment reported on September 30, 1984. The analysis must include an itemized description of each piece of depreciable equipment and its historical cost. The sum of the historical cost of each piece of equipment is the total historical cost of

STATE: MINNESOTA

ATTACHMENT 4.19-D (NF)

Effective: October 1, 2002

Page 104

TN: 02-26

Approved: **MAR 7 2003**

Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

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depreciable equipment for that nursing facility. For purposes of this item, a hospital-attached nursing facility shall use the allocation method in Section 16.010 to stepdown the historical cost of depreciable equipment.

B. The historical cost per bed of depreciable equipment for each nursing facility must be computed by dividing the total historical cost of depreciable equipment determined in item A by the nursing facility's total number of licensed beds on September 30, 1984.

C. All nursing facilities must be grouped in one of the following:

- (1) nursing facilities with total licensed beds of less than 61 beds;
- (2) nursing facilities with total licensed beds of more than 60 beds and less than 101 beds; or
- (3) nursing facilities with more than 100 total licensed beds.

D. Within each group determined in item C, the historical cost per bed for each nursing facility determined in item B must be ranked and the median historical cost per bed established.

E. The median historical cost per bed for each group in item C as determined in item D must be increased by ten percent. For rate years beginning after June 30, 1986, this amount shall be adjusted annually by the percentage change indicated by the urban consumer price index for Minneapolis-Saint Paul, as published by the Bureau of Labor Statistics, new series index (1967 = 100) for the two previous Decembers.

F. The equipment allowance for each group in item C shall be the amount computed in item E multiplied by 15 percent and divided by 350.

G. For the rate year beginning July 1, 1990, the Commissioner shall increase the nursing facility's equipment allowance established in items A to F by \$.10 per resident day.

H. For the rate period beginning October 1, 1992, the equipment allowance for each nursing facility shall be increased by 28 percent. For rate years beginning after June 30, 1993, the allowance must be adjusted annually for inflation by the index in E.

STATE: MINNESOTA

ATTACHMENT 4.19-D (NF)

Effective: October 1, 2002

Page 105

TN: 02-26

Approved: MAR 7 2003

Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

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**SECTION 16.110 Capacity days.** The number of capacity days is determined under items A to C.

A. The number of capacity days is determined by multiplying the number of licensed beds in the nursing facility by the number of days in the nursing facility's reporting period.

B. Except as in item C, nursing facilities shall increase the number of capacity days by multiplying the number of licensed single bedrooms by 0.5 and by the number of days in the nursing facility's reporting period. This adjustment has the effect of assigning a greater proportion of property costs to single bed rooms.

C. The Department shall waive the requirements of item B if a nursing facility agrees in writing to subitems (1) to (3).

(1) The nursing facility shall agree not to request a private room payment in Section 18.030 for any of its medical assistance residents in licensed single bedrooms.

(2) The nursing facility shall agree not to use the single bedroom replacement cost new limit for any of its licensed single bedrooms in the computation of the allowable appraised value in Section 16.040.

(3) The nursing facility shall agree not to charge any private paying resident in a single bedroom a payment rate that exceeds the amount calculated under clauses (a) to (c).

(a) The nursing facility's average total payment rate shall be determined by multiplying the total payment rate for each case mix resident class by the number of resident days for that class in the nursing facility's reporting year and dividing the sum of the resident class amounts by the total number of resident days in the nursing facility's reporting year.

(b) The nursing facility's maximum single bedroom adjustment must be determined by multiplying its average total payment rate calculated under clause (a) by ten percent.

(c) The nursing facility's single bedroom adjustment which must not exceed the amount computed in clause (b) must be added to each total payment rate established in Section 18.010 to determine the nursing facility's single bedroom payment rates.

STATE: MINNESOTA

Effective: October 1, 2002

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Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

---

ATTACHMENT 4.19-D (NF)

Page 106

**SECTION 16.120 Capitalization.** For rate years after June 30, 1985, the cost of purchasing or repairing capital assets shall be capitalized under items A to D.

A. The cost of purchasing a capital asset listed in the depreciation guidelines must be capitalized. The cost of purchasing any other capital asset not included in the depreciation guidelines must be capitalized if the asset has a useful life of more than two years and costs more than \$500.

B. The nursing facility may consider as an expense a repair that costs \$500 or less. Repairs that are considered as an expense must be classified in the plant operation and maintenance cost category. If the cost of a repair to a capital asset is \$500 or more, and the estimated useful life of the capital asset is extended beyond its original estimated useful life by at least two years, or if the productivity of the capital asset is increased significantly over its original productivity, then the cost of the repair must be capitalized.

C. The property-related expenditures related to capital assets such as lease or depreciation, interest, and real estate taxes which are used by central, affiliated, or corporate offices must be classified in the nursing facility's general and administrative cost category.

D. Construction period interest expense, feasibility studies, and other costs related to the construction period must be capitalized.

**SECTION 16.130 Determination of the property-related payment rate.** The Department shall determine the property-related payment rate according to items A to G.

A. Except as provided in Section 16.140, the building capital allowance of each nursing home shall be added to the equipment allowance.

B. For rate years beginning after June 30, 1986, the historical property-related cost per diem shall be the property-related payment rate established for the previous rate year unless the nursing facility's capacity days change. If the nursing facility's capacity days change from one reporting year to the next for any reason including a change in the number of licensed nursing facility beds, a change in the election for computing capacity days as provided in Section 16.110, or a change in the number of days in the reporting year, the historical property related per diem must be recalculated using the capacity days for the reporting year in which the change occurred.

C. For rate years beginning after June 30, 1985, the property-related payment rate shall be the lesser of the amount computed in item A or the historical property-related per diem in item B increased by six percent for each rate year beginning July 1, 1985 through July 1,

STATE: MINNESOTA

ATTACHMENT 4.19-D (NF)

Effective: October 1, 2002

Page 107

TN: 02-26

Approved: MAR 7 2003

Supersedes: 02-23 (02-08/01-09/00-22/99-10/99-04/98-22/97-20/97-11/96-25/96-18/95-21/  
94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65).

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1989, except as provided in items D to G.

D. A nursing facility whose allowable historical property-related per diem determined in item B is less than or equal to \$2.25 shall receive a property related payment rate equal to the greater of \$2.25 or its allowable historical property-related per diem increased by six percent for each rate year beginning July 1, 1985 through July 1, 1989, except that the property-related payment rate shall not exceed the amount determined in item A.

E. A nursing facility whose allowable historical property-related per diem determined in item B is greater than the amount determined in item A shall receive a property-related payment rate equal to its allowable historical property-related per diem.

F. In the event of a change of ownership or reorganization of the provider entity occurring after June 30, 1985, the nursing facility's property-related payment rate must be the lesser of the property-related payment rate in effect at the time of sale or reorganization or the amount determined in item A. Changes in the property-related payment rate as a result of this item shall be effective on the date of the sale or reorganization of the provider entity. For the purposes of this subsection, the following types of transactions shall not be considered a sale or reorganization of a provider entity:

- (1) The sale or transfer of a nursing facility upon death of an owner.
- (2) The sale or transfer of a nursing facility due to serious illness or disability of an owner as defined under the social security act.
- (3) The sale or transfer of the nursing facility upon retirement of an owner at 62 years of age or older.
- (4) Any transaction in which a partner, owner, or shareholder acquires an interest or share of another partner, owner, or shareholder in a nursing facility business provided the acquiring partner, owner, or share has less than 50 percent ownership after the acquisition.
- (5) A sale and leaseback to the same licensee which does not constitute a change in facility license.
- (6) A transfer of an interest to a trust.
- (7) Gifts or other transfers for no consideration.
- (8) A merger of two or more related organizations.



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94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

ATTACHMENT 4.19-D (NF)

Page 108

---

(9) A transfer of interest in a facility held in receivership.

(10) A change in the legal form of doing business other than a publicly held organization which becomes privately held or vice versa.

(11) The addition of a new partner, owner, or shareholder who owns less than 20 percent of the nursing facility or the issuance of stock.

(12) An involuntary transfer including foreclosure, bankruptcy, or assignment for the benefit of creditors.

G. The property-related payment rate for a nursing facility which qualifies for the special reappraisal in Section 16.030, item A shall be determined according to subitems (1) to (2).

(1) If the amount computed according to item A using the reappraised value is equal to or less than the property-related payment rate in effect prior to the reappraisal, the property-related payment rate in effect prior to the reappraisal shall not be adjusted.

(2) If the amount computed according to item A using the reappraised value is greater than the property-related payment rate in effect prior to the reappraisal, the property-related payment in effect prior to the reappraisal shall be added to the difference between the amount computed according to item A using the reappraised value and the amount value prior to the reappraisal. This sum must not exceed the amount computed in item A using the reappraised value. If the difference between the amount computed according to item A using the reappraised value and the amount computed according to item A using the most recent appraised value prior to the reappraisal is equal or less than zero, the difference shall be considered zero.

**SECTION 16.132 Special property-related payment provisions for certain leased nursing facilities.**

A. A nursing facility leased prior to January 1, 1986, and currently subject to adverse licensure action by the Minnesota Department of Health and whose ownership changes prior to July 1, 1990, shall be allowed a property payment rate equal to the lesser of its current lease obligation divided by its capacity days as outlined in Section 16.110, or the frozen property

STATE: MINNESOTA

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94-23/93-35/92-28/91-15/90-24/90-01/89-58/88-65)

ATTACHMENT 4.19-D (NF)

Page 109

---

payment rate in effect for the rate year beginning July 1, 1989. For rate years beginning on or after July 1, 1991, the property related payment rate shall be its rental rate as computed using the previous owner's allowable principal and interest expense as allowed by the Minnesota Department of Human Services prior to that prior owner's sale and lease-back transaction of December 1985.

B. Notwithstanding other provisions in this attachment, a nursing facility licensed for 122 beds on January 1, 1998, and located in Columbia Heights has its property-related payment rate set under this section. The Department shall make a rate adjustment by adding \$2.41 to the facility's July 1, 1997 property-related payment rate (which is effective for rate years beginning on or after July 1, 1998). The adjustment remains in effect so long as the facility's rates are set under this section. If the facility participates in the contractual alternative payment rate system of Section 22.000, the adjustment in this item is included in the facility's contract payment rate. If historical rates or property costs recognized under this section become the basis for future medical assistance payments to the facility under a managed care, capitation or other alternative payment system, the adjustment of this item will be included in the computation of the facility's payments.

**SECTION 16.133 Special property-related payment provisions for recently constructed nursing facilities.** For the rate years beginning on or after July 1, 1990 nursing facilities that on or after January 1, 1976, but prior to January 1, 1987, were newly licensed after new construction, or increased their licensed beds by a minimum of 35 percent through new construction, and whose building capital allowance is less than their allowable annual principal and interest on allowable debt prior to the application of the replacement cost new per bed limit and whose remaining weighted average debt amortization schedule as of January 1, 1988, exceeded 15 years, must receive a property related payment rate equal to the greater of their rental per diem or their annual allowable principal and allowable interest without application of the replacement cost new per bed limit divided by their capacity days from the preceding reporting year, plus their equipment allowance.

A nursing facility that is eligible for a property related payment rate under this section and whose property payment rate in a subsequent year is its rental per diem must continue to have its property related payment rates established for all future years based on the rental reimbursement formula. The Commissioner may require the nursing facility to apply for refinancing as a condition of receiving special rate treatment under this section. If a nursing facility is eligible for a property related payment rate under this section, and the nursing facility's debt is refinanced after October 1, 1988, the provisions of paragraphs (1) to (7) also